

Message Text

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L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-09
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 EA-10 NRC-05
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R 262257Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 8200

S E C R E T SECTION 01 OF 02 OTTAWA 03734

E.O. 11652: GDS
TAGS: TECH, ENRG, CA, JA
SUBJECT: POSSIBLE SALE OF ENRICHED URANIUM TO JAPAN

REF: (A) STATE 185153; (B) OTTAWA 03393

1. SUMMARY: SCICOUNS DISCUSSED SUBSTANCE OF REFTEL (A) WITH D. TOZER OF EXTAFF WHO WORKS IN LABERGE'S ORGANIZATION AND IS MOST FAMILIAR WITH THE SUBJECT OF THE REFTEL, AND WITH O.J.C. RUNNALLS, THE URANIUM SUPPLY AND DEMAND EXPERT IN ENERGY, MINES AND RESOURCES (EM&R).

THE RESPONSE WAS SIMILAR IN EACH CASE, NAMELY THAT THEY APPRECIATED RECEIVING A STRAIGHT STORY TO COUNTERACT CONFLICTING RUMORS. THERE ALSO IS A STRONG DESIRE, AT THE STAFF LEVEL IN EACH ORGANIZATION, NOT TO ESCALATE THE PROBLEM TO HIGHER LEVELS OF THE GOC, UNLESS A DEAL FIRMS UP BETWEEN THE U.S. AND JAPAN WHICH IS UNFAVORABLE TO CANADA. THE PRIMARY CONCERNS OF THE GOC CONTINUE TO BE THE PRICE AND QUANTITY OF URANIUM WHICH MIGHT BE SOLD, AND UNTIL THESE NUMBERS ARE ESTABLISHED, IT IS NOT CLEAR WHETHER OR NOT THE GOC FACES A SERIOUS PROBLEM.

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IN RECENT CONVERSATIONS WITH THE JAPANESE THE CANADIANS WERE TOLD THAT THE LARGE UTILITIES IN JAPAN ARE OPPOSED TO THE PURCHASE OF ENRICHED URANIUM, SINCE IT WOULD ENTAIL "FURTHER GOVERNMENT INTERFERENCE" IN THEIR BUSINESS. END OF SUMMARY.

2. EXTAFF HAS BEEN RECEIVING A SERIES OF CONFLICTING RE-

PORTS FROM MACDOWALL IN THE CANADIAN EMBASSY IN WASHINGTON;
ON THE POSSIBLE SALE OF ENRICHED URANIUM TO JAPAN. THERE-
FORE, THEY WERE PLEASED TO LEARN OF THE STATUS THROUGH A
DIRECT DEPARTMENT CHANNEL.

3. ALTHOUGH IT IS TOO EARLY TO OBTAIN ANY GENERAL GOC
REACTION TO THE PROPOSED SALE, TOZER SAID THAT THE STAFF
OF EXTAFF WOULD RECOMMEND THAT THE GOC TAKE A "WAIT AND
SEE" ATTITUDE AND NOT RAISE THE RED FLAG UNLESS IT APPEARS
THAT JAPAN IS ABOUT TO MAKE A FIRM PROPOSAL.

4. KEY FACTORS IN THE ATTITUDE OF THE GOC TOWARD SUCH A
POTENTIAL SALE WOULD BE A) THE PRICE AND B) THE QUANTITY
OF MATERIAL INVOLVED. AS WAS MENTIONED IN REFTTEL (B) A
PRICE WHICH INCLUDED A NATURAL URANIUM COMPLEMENT VALUE OF
LESS THAN ABOUT \$42 PER POUND WOULD DRAW AN OBJECTION FROM
CANADA. THE SALE OF A LARGE QUANTITY OF ENRICHED URANIUM,
WHICH WOULD UNDERCUT GOC'S SALE TO JAPAN OF NATURAL URAN-
IUM ALSO WOULD DRAW FIRE.

5. IN THE ABSENCE OF KNOWLEDGE OF WHETHER A U.S./GOJ DEAL
WILL ACTUALLY BE MADE, OR OF THE QUANTITY AND PRICE OF
MATERIAL WHICH MAY BE INVOLVED, THE EXTAFF PROBABLY WILL
NOT ESCALATE THE PROBLEM. HOWEVER, IT IS VERY IMPORTANT
THAT THEY BE INFORMED, IN ADVANCE, IF ANY SUCH DEAL BE-
GINS TO FIRM UP.

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6. THE EXTAFF, IN TURN, HAS AGREED TO KEEP THE EMBASSY
INFORMED IF THEY LEARN OF ANY RUMBLINGS IN OTHER DEPART-
MENTS OF THE CANADIAN GOVERNMENT OVER THE POTENTIAL U.S.
SALE TO JAPAN, OR IF ANY DECISION IS TO BE MADE WITHIN
THE GOC TO ESCALATE THE MATTER TO HIGHER LEVELS.

7. RUNNALLS SAID THAT HE HAS BEEN TALKING TO REPRESENTA-
TIVES OF SOME OF THE MAJOR JAPANESE UTILITIES (TEPCO AND
KANSAI) AND THAT THEY ARE STRONGLY OPPOSED TO THE "GOVERN-
MENT INTERFERENCE" IN THEIR FUEL PROCUREMENT PLANS WHICH
WOULD RESULT FROM A U.S./GOJ AGREEMENT ON THE PURCHASE OF
SIGNIFICANT QUANTITIES OF ENRICHED URANIUM FROM THE U.S.

8. IN VIEW OF THE "MUSCLE" OF THESE UTILITIES, RUNNALLS
BELIEVES THAT THE GOJ WILL PURCHASE THE SMALLER (6000T
OF U308 EQUIVALENT) RATHER THAN LARGER (15,000T) QUANTITY
OF URANIUM, IF ANY. (THE SMALLER QUANTITY WOULD NOT
BOTHER HIM, AS JAPAN WILL CONTINUE TO BUY NATURAL URANIUM
FOR THE MID 1980'S).

9. YAMATO TOLD RUNNALLS (IN GENEVA) THAT JAPAN IS OPPOSED

TO THE IDEA OF CONTRIBUTING TO A "FUEL BANK" AND IS STILL TRYING TO PROCURE URANIUM FROM ALL SOURCES, FOR THE 1984-85 TIME PERIOD, TO PROTECT ITS OWN SUPPLY.

10. THERE HAS BEEN SOME SPECULATION, BY THE JAPANESE (ACCORDING TO RUNNALLS), THAT THE URANIUM SALE IS BEING PROMOTED BY THE U.S. PARTLY AS A BUREAUCRATIC MANEUVER. THEY BELIEVE THAT THE ENRICHED URANIUM WILL BE SOLD TO JAPAN AND THEN THE LATTER WILL BE PRESSURED BY THE U.S. TO PUT IT INTO THE FUEL BANK.

11. COMMENT: IT APPEARS THAT THE GOC, AT THE STAFF LEVEL,

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S E C R E T SECTION 02 OF 02 OTTAWA 03734

AT THIS TIME IS NOT OVERLY CONCERNED ABOUT THE PROPOSED SALE OF ENRICHED URANIUM TO JAPAN. HOWEVER, THIS IS BASED ON THE ASSUMPTIONS THAT A) THE DEAL MAY NOT MATERIALIZE AND IF IT DOES, THE QUANTITY OF MATERIAL WILL BE SMALL, B) THE U.S. WILL OFFER IT AT THE "WORLD MARKET PRICE" (GREATER THAN \$40 PER POUND OF U308), C) THAT THE GOC WILL BE KEPT INFORMED OF THE STATUS OF NEGOTIATIONS, AND D) NO ARTICLES OF PROTEST APPEAR IN THE PUBLIC MEDIA IN CANADA (THERE HAS BEEN NO MENTION OF IT, SO FAR).

IF THE NEWS MEDIA DO PICK IT UP AS A FEATURED STORY, OR IF IT APPEARS THAT THE U.S. IS PROCEEDING WITH THE DEAL IN SECRET, WITHOUT KEEPING CANADIAN OFFICIALS INFORMED, THERE IS A REAL POSSIBILITY THAT GILLESPIE, THE MINISTER FOR EM&R, WILL COME OUT OF THE BOX AGAIN (AS HE DID LAST FALL) AND VOICE A PROTEST AT HIGH GOVERNMENTAL LEVELS. ON THE EXTAFF SIDE, IT ALSO COULD ESCALATE TO THE VANCE/

JAMIESON LEVEL. DUEMLING

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